This record is a partial extract of the original cable. The full text of the original cable is not available.

210913Z Oct 05

ACTION AF-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
	INL-00	DODE-00	DOEE-00	DOTE-00	PERC-00	DS-00	EB-00
	EUR-00	EXIM-01	E-00	FAAE-00	VC-00	FRB-00	H-00
	TEDE-00	INR-00	IO-00	ITC-01	VCE-00	M-00	AC-00
	NEA-00	NRC-00	NSAE-00	NSCE-00	OES-00	OMB-00	NIMA-00
	GIWI-00	ACE-00	FMPC-00	SP-00	IRM-00	SSO-00	SS-00
	STR-00	TRSE-00	BBG-00	R-00	EPAE-00	IIP-00	SCRS-00
	DSCC-00	PRM-00	DRL-00	G-00	SAS-00	SWCI-00	/003W

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FM AMEMBASSY NDJAMENA
TO SECSTATE WASHDC 2484
INFO AMEMBASSY ABUJA
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY YAOUNDE
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DEPARTMENT FOR AF, TREASURY FOR OTA, LONDON AND PARIS FOR AFRICA WATCHERS

E.O. 12958: DECL: 10/19/2015
TAGS: ECON EFIN ENRG PGOV CD
SUBJECT: CHAD: GOVERNMENT LOBBYING FOR CHANGES TO OIL REVENUE MANAGEMENT LAW

Classified By: Lucy Tamlyn, DCM, for reasons 1.4 (b) and 1.4 (d)

¶1. (SBU) Summary: Following a chilly reception in Washington by the Bretton Woods Institutions, the Government of Chad (GOC) is reaching out to development partners and civil society in Chad on the need to modify the law governing management of petroleum revenues, with the hope of persuading the international financial institutions (IFI's) to view the changes more sympathetically. The modifications proposed include revisiting the desirability of a "Fund for Future Generations," increasing the unearmarked amount intended for the National Treasury and integrating the new oil fields into the revenue management scheme. In preliminary meetings on this issue with Finance Minister Tolli and Prime Minister Pascal Yoadimnadji, Ambassador Wall stressed the importance of transparency, the College oversight of petroleum revenues and dialogue with Chad's international partners. A recent World Bank (WB) hosted seminar on the status of the oil project underscored to the GOC the international outcry that would arise were such a step to be taken. We do not anticipate a precipitous move by the GOC to change the law, but it feels under pressure to do so. If the current stand-off is not resolved one way or another, representatives of the petroleum consortium shared with Emboffs their fear that the consortium would be identified as "the problem." End summary.

Tolli reports a chilly reception in Washington

¶2. (SBU) Ambassador Wall met with Ministry of Treasury Tolli October 17 to discuss Tolli's recent visit to Washington D.C. Tolli described a stiff reception at the WB and an equally difficult one at the IMF. He made the pitch that Chad needed to revise the petroleum management law (law 001/99) in order to enlarge the share of revenues going to the general budget from 15 to 30 percent, integrate the new fields into the law, revisit the desirability of the fund for future generations and expand the designated priority sectors. At the same time, he stressed that the GOC intended to protect the role of the college, the existing priority sectors and allocations to the producing region. Tolli argued that it was senseless to reserve funds for the future when the children need new schools now. He also wanted to include justice, higher education, territorial administration and certain aspects of public security, (salaries, uniforms, etc), but not the army on the list of priority sectors. Tolli argued that the GOC was at an impossible conjuncture right now, facing simultaneously salary arrears, the need to support troops in eastern Chad, and diminished customs revenues (as a result of the Darfur conflict destroying lucrative trade through Sudan.) Minister Tolli said that he had advised the Prime Minister to "consult with everyone:" donors, the National Assembly, NGO's, the College, civil society. Ambassador Wall underlined U.S. support for the College, for the principle of

transparency and for dialogue with Chad's partners.

Prime Minister conducts consultations

¶3. (SBU) Prime Minister Pascal Yoadimnadji convoked Ambassador Wall October 19 to pursue the same discussion. He described a precarious social situation characterized by large internal indebtedness, strikes due to salary arrears in the health and education sectors and difficulties in paying pensions. Referring to recent reports of mutinies in the army's ranks, he stated that "they don't have anything to eat." Despite the fact that development partners called it "premature" to revise the law, he reported that President Deby believed that the situation was not sustainable. Accordingly, "light modifications" were necessary to which he hoped the United States would lend its support. The modifications would be reflected in the government's 2006 budget which was still in draft and had not been transmitted to the National Assembly. Proposed changes included revisiting the Fund for Future Generations, increasing the amount attributable to the General Treasury from 15 percent to 30 percent and integrating the new oil fields into the scheme. Yoadimnadji also discussed generally looking at additional areas for funding (such as human resources), but did not specifically mention revising the priority sectors. He stated that the GOC wanted to hear from development partners -- especially the United States -- on this issue and hoped that we would be able to convince the other development partners (i.e. the IFI's). Yoadimnadji stressed that the government needed to demonstrate to the Chadian people that tangible efforts were being made to increase the stream of revenues -- otherwise the citizens could not understand why they were seeing such little improvement in their standard of living. Prime Minister Yoadimnadji also underscored that GOC recognized that the oil resources were not sufficient to cover all of Chad's needs and emphasized the importance of dialogue with the international community on this issue. He noted with chagrin that he "was not proud" of the fact that Chad had scored the worst in Transparency International's recently released corruption index.

¶4. (SBU) Ambassador Wall responded that the world was looking to Chad as an example of management of oil revenues in a developing country. He reiterated the importance of transparency and the role of the College -- also of the dialogue with development partners. That being said, it might not be possible to complete the necessary consultations in two months. He promised to raise these questions with Washington and mentioned his upcoming visit in November. He commented that the additional resources from revising the law would not be adequate to meet Chad's needs. Chad needed to address the bigger problem of improving management of its public finances. In conclusion, he stated his hope that if there is a revision of the law, it should be in consultation with all partners.

What are the alternatives

¶5. (C) In a meeting with Ambassador Wall October 6, WB representative Noel Tshiani reported on the efforts by President Deby and Prime Minister Pascal Yoadimnadji to elicit IFI support for changes to the revenue management law and the subsequent (coordinated) WB/IMF response that this was premature. Tshiani reported that President Deby had hinted that whoever came after Deby could not be expected to honor the agreements, and that popular disillusionment over the slim impact of oil revenues threatened the President's political base -- particularly among the military where funds were urgently needed for demobilization.

¶6. (C) Ambassador Wall and Emboffs also discussed with Tshiani and, separately, with Esso reps, the implications of

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Chad unilaterally changing the revenue management law. According to the WB, the cost to Chad of modifying the revenue management law without WB support would be an immediate bill of USD 30 million (the amount outstanding on the WB loan for the pipeline) as well as suspension of other WB programs, African Development Bank loans (and possibly European Commission funding). It would also derail meeting the HIPC completion point and the ensuing debt relief. Nonetheless, according to the WB, the GOC might be receiving encouragement (including possibly promised financial support) from neighboring countries -- countries (such as Libya and Gabon) that had a vested interested in ensuring that the "Chad model" of transparent oil revenue management failed.

¶7. (SBU) Esso representative Ron Royal pointed out to Ambassador Wall on October 7 that, starting in 2008, taxes from the consortium will bring in approximately USD 800

million unearmarked funds annually to the state coffers. Knowing that this money was in the offing, the GOC might try to make the changes unilaterally and "tough it out" until ¶2008. However, in the near term, with royalties only clearing about USD 14 million a month, the GOC would not be able to pay all of its expenses (even if they closed down the revenue management scheme). Therefore, absent some new source of funding, Royal observed Chad would still need the WB, the IMF and other donors. In any event, and more to the point for Esso, if the current stand-off is not resolved one way or another, Royal observed that the consortium would be identified as "the problem."

¶8. (SBU) A World Bank hosted seminar October 24-25 examined the impact of the oil project "two years later." The seminar, which had broad participation by private sector and civil society representatives, served to remind the GOC and other attendees of the firestorm of criticism that the government would be expected to receive were it to change the oil revenue management legislation. Civil society coalesced around the position that the lack of visible impact from the oil revenues was the result of the government's poor management of the resources, not of the law's failings. Overall, they did not support changes to the revenue management law.

What is the impact

¶9. (SBU) The IMF representative, Wayne Camard, has confirmed that the GOC's budget woes are real enough. Faced with an approximately USD 150 million budget deficit from 2004, the government was able to pay off or renegotiate some USD 70 million. The recent release of Euro 12 million in African Development Bank (ADB) grant money has alleviated some pressure on civil service salaries which are now current through August 2005. However, failure to meet IMF performance criteria has delayed the release of additional funding (about USD 6 million from the IMF and about USD 15 million from EC). According to Camard, increasing the share of oil revenues going into the general Treasury account as proposed by the government would not amount to much in 2006 as most of the oil money has already been programmed for road building projects. The revenues from the Nya field (the only one producing that is not part of the current law) are also paltry. He reiterated that any unilateral change to the law would jeopardize IMF and EC funding.

¶10. (C) Comment: The proposed modifications are unlikely to increase government revenues significantly in the near term. With or without modifications, the GOC will still experience difficulties meeting pension and salary obligations (particularly in the health, education and military sectors) and repaying internal debt. The GOC could change the law without World Bank acquiescence, but the punitive costs of doing so appear to outweigh the benefits and we do not consider this a likely scenario. While the law is not perfect, and reasonable arguments can be made in favor of some modifications, we will continue to stress the importance of transparency, College oversight and reaching consensus with international partners on any revision to the law.

WALL

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